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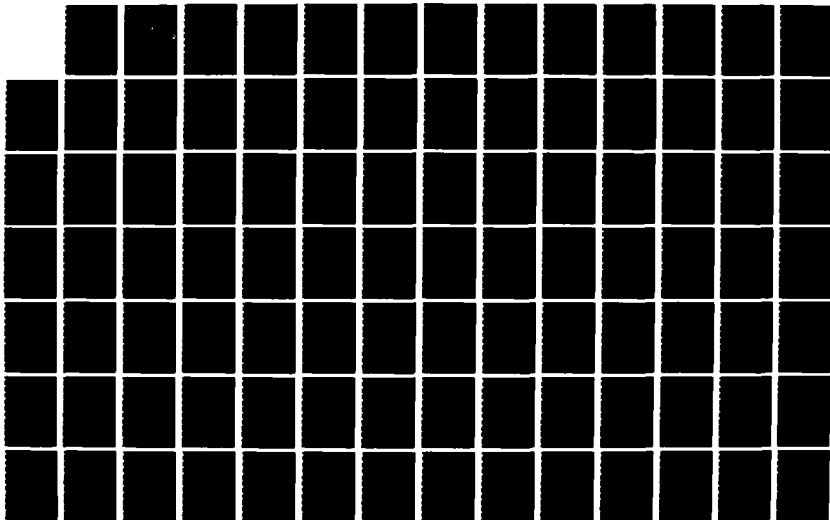
A STUDY OF THE IMPACT OF THE LACK OF A COST ACCOUNTING
STANDARDS BOARD(U) NAVAL POSTGRADUATE SCHOOL MONTEREY
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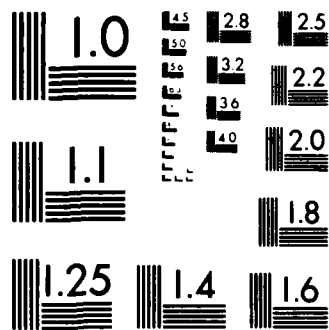
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A STUDY OF THE IMPACT OF THE LACK OF
A COST ACCOUNTING STANDARDS BOARD

by

James F. Sumner, III

June 1987

Thesis Advisor:

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THE UNITED STATES OF AMERICA
IN SENATE
COMMITTEE ON THE JUDICIARY

19

REPORT
OF THE
COMMISSIONER OF THE GENERAL LAND OFFICE
IN RESPONSE TO A RESOLUTION PASSED BY THE SENATE
MAY 1, 1906

AND
A REPORT
ON THE
LANDS BELONGING TO THE UNITED STATES

MADE PUBLIC BY THE COMMISSIONER OF THE GENERAL LAND OFFICE

WASHINGTON

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1906

James F. Squire
Al. Fung
John H. Hatcher
Al. Fung
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ABSTRACT

This thesis has two purposes. First, it attempts to determine whether the absence of the Cost Accounting Standards Board (CASB) has given rise to any areas of contention between contractors and defense agencies and what those areas might be. Second it evaluates several issues by reference to data reflecting the opinions and experiences of industry representatives and Government contract administrators. Data were gathered by the use of two questionnaires.

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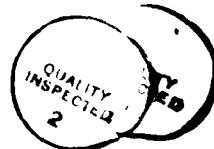


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1. INTRODUCTION

For many years, the United States Government's procedures for purchasing goods from private industry lacked a certain amount of order and structure. Although the Government had the capability to compare the cost of one good against another, and even the ability to compare the cost of the same good over time, the ability to justify the costs attributed to a contract and therefore the capacity to reliably estimate future contract prices was limited.

In 1970 the Cost Accounting Standards Board (CASB) was created by Congress to establish principles to achieve uniformity and consistency in estimating, accumulating, and reporting of all negotiated contracts that exceeded \$100,000. In 1980 the CASB was allowed to die by the Congress who created it, leaving behind the product of ten fruitful years of work.

Since its inception the CASB was one of the most controversial federal agencies, and its demise did not stem the flow of disagreement between the parties still affected by the legacy of the Board.

A. OBJECTIVE OF RESEARCH

Relations between the defense agencies and industrial suppliers are guided by a series of complex procedures, some

of which are common to every industry and others which cannot be found elsewhere. This study focuses on one particular set of rules, Cost Accounting Standards (CAS), and attempts to analyze the extent to which the disappearance of the CASB has impacted the defense industry.

The objective of this study is two-fold. First, it attempts to develop the perspectives of both the defense agencies and the industrial contractors with respect to the CAS in general and also their views on the continuing need for a CASB in general and also their views on the continuing need for a CASB. To this end, the historical presentation of the development of the board and the issues that arise from it will provide a background for evaluation. Second, the study evaluates these issues with today's perspective in mind, using present data which reflect the opinions and experiences of government administrators and industry representatives. These data were obtained by the use of a questionnaire.

B. STATEMENT OF THE RESEARCH QUESTION

The basic research question of this project is as follows: What, if any, problems for industry and/or for defense agencies have resulted from the abolition of the CASB? The following subsidiary questions will also be explored:

- 1) How serious are these problems?
- 2) Are there any cases in which the absence of the CASB provides an advantage or a disadvantage to either the contractor or the government agency?
- 3) How are contractor and the agencies handling areas of contention?

C. LIMITATIONS AND ASSUMPTIONS

1. Limitations.

The opinions expressed by anyone with respect to a given event are generally biased by his position with respect to the event. This study attempts to explain positions both of the defense contractors and of various agencies of government.

Although an attempt has been made to be as comprehensive as possible, space and time have prohibited this study from pursuing and analyzing every issue that has been expressed by those consulted. Only the major problem areas have been presented and explored.

2. Assumptions.

This study assumes that the reader has a general knowledge of or familiarity with basic cost accounting principles. It also assumes that the reader has a broad understanding of the defense procurement process, with particular emphasis on the roles of the CAS on defense contracting and the accounting practices of the defense industry.

D. ORGANIZATION AND METHODOLOGY

1. Organization.

This study has been organized in an effort to answer the basic research question systematically. Chapter 1 introduces the subject matter and describes the manner in which the study will proceed. Chapter II provides a historical analysis of cost accounting in the defense industry environment and emphasizes the reasons for the creation of the CASB, its role in the defense procurement process and the issues that have come to light since it went out of business. Chapter III presents the salient issues that were gathered initially and which became the framework around which the study was structured. Chapter III also presents the methodology used for developing the research questionnaires used in the study. Chapter IV introduces and analyzes the data and findings from the questionnaires used in this research. Conclusions and recommendations of this study are contained in Chapter V.

2. Methodology.

a. Literature Search.

A search of the literature was conducted in the Naval Postgraduate School Library, and a custom bibliography was obtained from the Defense Logistics Studies Information Exchange (DLSIE), Ft. Lee, Virginia. Additionally, many

articles and references were discovered during the course of conducting interviews.

b. Interviews.

Due to the large number of possible issues, the scope of the thesis was focused by means of a limited series of personal interviews, conducted at the onset of the research, with representatives of industry, Department of Defense (DoD), Defense Contract Audit Agency (DCAA), and the National Aeronautics and Space Administration (NASA). Interviewees who were personally involved with policy making and the administration of CAS in the post-CASB environment were sought. The interviews were unstructured, since the object was to elicit issues that would focus the study. This approach allowed the researcher to direct questions to the specific strengths and interests of the subject. Interviews were taped; however, subjects were assured that their remarks would not be specifically attributed to them. It was felt that anonymity allowed the subjects to express their views on the topic frankly. Appendix A is a list of the personal interviews conducted.

c. Questionnaires.

After the issues were identified during the interview process, two questionnaires were prepared to address substantially the same issues--one from the point of view of a government contract administrator and the other

from that of the comptroller or chief financial officer of a defense contractor. The questionnaires were then set to a random sample of defense contractors and to a selected sample of government defense contract administrators. The preparation and distribution of the questionnaires will be fully addressed later. The data analyses contained in this study come from responses to these questionnaires, unless otherwise indicated.

11. DEVELOPMENT OF COST ACCOUNTING

For a very long time the United States Government conducted business with all its suppliers at a level not consistent with the role of the multi-billion industry that it had become. The Government's knowledge and understanding of industry's cost accounting systems and practices needed improvement.

A. HISTORIC REVIEW

In the 1950's and 1960's defense contract cost accounting issues were settled by using one of the guidelines available, such as the Internal Revenue Code and Regulations, the Securities and Exchange Commission (SEC), generally accepted accounting principles (GAAP), and section XV of the Armed Services Procurement Regulation (ASPR). However, there were several weaknesses in all these guidelines. For example, GAAP's chief concerns were accurate financial reporting and the precise determination of net income. Therefore, they were not suited to serve the procurement process. The Internal Revenue Code and Regulation's purpose was to implement tax laws and raise revenues; so, its approach was not particularly helpful in justifying costs allocated to contracts. The SEC again was concerned with the financial reporting to third parties and its focus was on the whole corporation, not on an individual

contract. Of all the available guidelines, section XV of ASPR was instituted to provide general cost accounting guidance and procedures for defense contracts, but it relied heavily on GAAP and IRS pronouncements and it also lacked specific criteria for alternate accounting principles and methods. [1]

B. INCEPTION OF THE COST ACCOUNTING STANDARDS BOARD

The birth of the CASB is usually attributed to Admiral Hyman G. Rickover. Admiral Rickover repeatedly stressed to both houses of Congress that "the lack of uniformity in the cost systems employed by industry was the primary deficiency in government related accounting." [2] Due to this deficiency, the government did not have the means to compare and analyze cost data between contracts and even between periods.

Admiral Rickover, whose last assignment was as Director of the Naval Reactors Program, was at this time involved in one of his many confrontations with industry. As he was known to do, he took his fight to the Congress, where he presented testimony recommending the establishment of uniform accounting standards for all defense contractors, to prevent the loss of public funds through what he termed "accounting manipulations". During his presentation he provided arguments and figures supporting a potential

savings to the government of about two billion dollars per year, attributable entirely to the use of uniform cost standards. [3]

Because of the Admiral's tenacity and also largely due to the mood of the times, the Congress was convinced that the lack of systematic and codified cost accounting standards increased procurement costs, permitted excessive contractor profits, and limited the Government's ability to procure weapon systems in an efficient manner. So, in 1968 the House of Representatives directed the Comptroller General to formulate uniform cost accounting standards. This mandate was modified in the Senate and the law finally stated:

The Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget. . . (to) undertake a study to determine the feasibility of applying uniform cost accounting standards to be used in all negotiated prime contracts and sub-contracts procurements of more than \$100,000. [4]

By 1970 GAO had completed the study and reported that, although there were significant objections in many different quarters, it had determined that implementation of a uniform set of cost accounting standards was feasible. [5] So, on August 15, 1970, a comprehensive change to the Defense Production Act of 1950 created the CASB as an independent congressional agent. The law in part reads: "The board is authorized to make, promulgate, amend and rescind rules and

regulations for the implementation of cost accounting standards. . . ."[6] The act was signed into law by President Richard M. Nixon, who stressed the need for Congress to amend the law as soon as possible and transfer the Board to the executive branch.

C. SCOPE AND COMPOSITION

1. Scope

The scope of objectives of the CASB included enhancing uniformity, consistency, and comparability in cost accounting data, while maintaining neutrality as to the interests of the Government and contractor. The fact that the Board was a government entity posed some problems regarding the neutrality issue. The composition of the Board itself has some answers to the problem; the rest of the solution was left to be answered by the process employed by the Board in creating and promulgating Cost Accounting Standards.

2. Composition

The issue of the CASB residing in the legislative branch was one of the most heatedly debated ones. The Board an agency of the Congress, was given a regulatory responsibility that some argued belonged in the executive branch.

Another of the frequent objections to the CASB was the fear of government appointing self-serving members, who would look to lower the price of defense contracts at the expense of private industry's interests. This was one of the first myths that the Board attempted to destroy in an effort to establish its neutrality.

By law the Board was composed of five members with background ranging from government, the accounting profession, and industry.[7] The Board was headed by the Comptroller General, Mr. Elmer Staats, and set up an elaborate system of reviews to ensure that the standards it provided would be fair, and, most of all, that all of the parties affected by the standard would have a chance to express their points of view before the standard was published. This in no way assured that one's view would prevail, but, at the very least, it provided some measure of credibility to the program. [8]

D. THE PROCESS AND PROCEDURES

The CASB explained publicly its process as follows:

The process which resulted in the promulgation of a cost accounting standard was characterized by an in-depth study of the subject and by participation of interested parties. The board used techniques and resources which were appropriate to the subject at hand. (They included) selection of a topic. . . , research of the existing situation. . . , evaluation of benefits and costs. . . , promulgations . . . , congressional consideration. . . , continuing review. . . , and interpretation.[9]

The actual process employed by the CASB in promulgating standards followed very closely the description presented by the Board. As was mentioned earlier, the Board consisted of five members who met once a month to deliberate on items on an agenda. The muscle behind the decision making body of the CASB was a group of about 35 professional and clerical staffers. The professional staff members were specialist in individual cost accounting areas, and they prepared and submitted papers on items of interest for the Board's agenda. From these items papers, selected proposals were further refined by the staff and then were reviewed and polished by the Board. These then became proposed standards and were issued as advance copy for comments by various groups of interested parties, such as the FASB, the American Institute of Certified Public Accountants (AICPA), several industry associations, the Federal Government Accountants Association (FGAA), and a number of companies and individuals. Then the proposed standard was published in the Federal Register and comments from all sources were received, discussed and considered. After any revisions were made, the standard was promulgated again in the Federal Register. [8] If Congress did not reject it within 60 days of continuous Congressional session, the standard attained the full force and effect of law.[10]

The process used by the Board had some similarities to the one used by the accounting profession's own standard-setting board, the Financial Accounting Standards Board (FASB). And although there were many similarities, also there was one striking difference; the CASB's standards had the full force and effect of law. The FASB on the other hand depended on a broad consensus among accountants and industry to make its standards effective. This major difference provided the CASB with an advantage that, although the board tried to downplay, many considered an unfair unilateral force in defense contract administration.[8]

If one follows closely the process used by the CASB, it is easy to deduce that the Board was not in the business of publishing large volumes of standards, if for no other reason than the long time involved with the process. The evidence bears this out. In the ten years that the board was in operation it managed to produce a total of 19 standards, and in every case the board employed the same meticulous and determined approach towards the goal. There is no evidence that the CASB was under any timetable, and the time that it took to produce each of the standards varied normally in proportion to the opposition that it developed as the process started. Appendix B has encapsulated versions of the 19 standards published by the CASB.

E. ATTITUDES AND FEELING

Early in its life the CASB understood well its own significance. Comptroller General Elmer Staats, Chairman of the CASB said

. . .The Board is acutely conscious of the broad impact it may have on the accounting profession and business activity in general, as well as the more direct impact on companies subject to its promulgations.[11]

The Board, looked at from a detached point of view, appeared insignificant among the giants of government bureaucracies. However, very few other entities wielded the power and had the impact potential of the CASB. So, as was expected, all parties affected by the CAS had definite feelings about the CASB.

1. Industry Attitudes

Even before the days of the CASB, when the Department of Defense (DoD) in the late 1950's set out to revise some accounting principles in Section XV of the Armed Services Procurement Regulation (ASPR), industry's feelings were quickly made known. One industry association summarized these feelings in a position paper, stating that industry considered the cost principles detrimental to the buyer-seller relationship. Further, it asserted that the principles promoted an adversarial relationship, which had proven to be inefficient in the conduct of a complex activity. The industry association recommended that the

cost principles be simplified by removal of all detailed guidance and instructional material related to determinations of the reasonableness of elements of cost. This point, coupled with the notion that, whenever industry becomes involved with government regulation, it is always to the detriment of industry's profits, became the focus of the attitudes of private industry toward uniform cost accounting rules.[12]

Shortly after the CASB became operational its Executive Secretary stated that, due to the effort of the Board to minimize the inherent mistrust of industry toward the Board, as well as the extensive attempts to enhance involvement of industry representatives in the decision making process, the attitudes of industry could be classified in two distinct categories. The first were those of industry associations which seemed to have adhered to the original beliefs and still viewed the CASB as a unilateral and even capricious body. Second, the views of some individual contractors, in sharp contrast to the views of the associations, reflected a constructive approach to the research and development of standards. From within the CASB both position were thought to be useful, the position of the individual contractor for obvious reasons, and the position of the associations were regarded as helpful since, as the executive Secretary expressed

(The industry associations). . .are a valuable sounding board in the development of cost accounting standards. The associations give us the most negative attitude possible. We believe that if we can deal with the problems included in this worst possible case we have gone a long way toward practical solutions to problems that exist at individual contractor's plants.[12]

2. The Accounting Profession's Attitudes

During the hearings leading to the creation of the CASB it was noted that the accounting profession placed its emphasis on principles related to financial reports to stockholders. Problems concerning cost accounting had always received very low priority within the profession. The AICPA's concern was that, to avoid conflict between CAS and the larger body of generally accepted accounting principles, it would be highly desirable to draw on the services of practicing public accountants who were well informed as to the cost principles used in industry. Another concern was with the use of the term "uniform cost accounting standards". The term "cost accounting principles" was recommended instead. However, the AICPA withdrew this objection at a later date. The profession at large was generally concerned with financial accounting and paid relatively little attention to cost accounting issues. At one point a committee of the AICPA discounted the work of the CASB as that of a small group of people concerned with a very narrow field. The profession's lack of interest is worthy of note when one realizes that defense procurement,

contractors, handling more than 25,000 contracts at an annual cost exceeding \$30 billion.[12]

Other professional associations created liaison committees with the CASB. However, the CASB frequently complained that, regardless of the effort it made to obtain advanced cooperative assistance, the best they could get was criticism, without positive input, after the drafts were published in the Federal Register. Some help was obtained from the Financial Executives Institute (FEI), once the FEI conceded that the standards were imminent and realized that, since it was going to have to live with the product of the Board, it had best turn its accounting expertise toward assisting the Board in the development of practical, useful, and equitable standards.

There were two organizations from which the Board expected some help but which, in the opinion of the CASB Executive Secretary, were not very cooperative. First was the American Accounting Association (AAA), which is an organization composed primarily of university professors. Even though the Executive Secretary felt that way about the participation of AAA, Dr. Robert Williamson chairman of the Committee on Cost Accounting Standards of the AAA, said that he saw "...the creation of the CASB as a logical step in a historical chain of events.[13] He also stated that he

considered the standards promulgated by the Board to be the product of a much better process than any previous semi-secret or ad-hoc procedure.[13] The other organization which disappointed the Executive Secretary was the Federal Government Accountants Association (FGAA). Although originally there was a strong interest manifested by it, this quickly waned and it did not provide the support that was expected.[12]

3. Government Attitudes

The Government agencies original position towards CAS can best be summarized by reading what Admiral Rickover expressed in his keynote address at the Annual Symposium of the FGAA just two months before Congress created the CASB. He stated that, in the 1968 Senate hearing which culminated in the requirement for a GAO study of the feasibility of cost accounting standards, the DoD claimed that adequate standards already existed, and GAO hedged on the issue.[14]

However, this negative attitude in government changed dramatically and the Board obtained valuable help from agencies such as the Defense Contract Audit Agency, Defense Logistic Agency (DLA), NASA, the Atomic Energy Commission (AEC), the General Service Administration (GSA) and the Office of Management and Budget (OMB).

One of the salient arguments that the Board received from several sources dealt with timing. On one hand the Board was chartered by Congress to proceed with the task at hand and to provide a progress report two years after it's

birth. On the other hand, the CASB received advice from industry groups, ensuring that a very slow and deliberate pace be used in the creation of standards. In response the CASB stated that it would continue to seek advice from various organizations in industry, the accounting profession, and government. However, it made it be known that it did not expect any delays in the promulgation of standards, even if such advice was slow in appearing.[12]

F. OTHER BOARD FUNCTIONS

Up to now, the discussion has focused on the primary function of the CASB, that is the research, development and promulgation of Cost Accounting Standards to be employed in the implementation of negotiated government contracts. However, from its inception, the CASB performed several other functions which were considered to be vital to the charter of the Board.

To effectively manage the complex world of cost accounting within its purview, and as directed by law, the Board moved to ensure consistency by requiring contractors to disclose their cost accounting practices. Another of the functions of the Board was to continue monitoring issues after standards were promulgated, to review the effectiveness of the standards. This process proved to be valuable, since it stressed a continuing dialogue between

the CASB and those parties most directly affected by its work. The CASB also provided a knowledgeable body to offer interpretations of its standards whenever a disagreement between an agency and a contractor erupted. Finally, the Board was also directed by law to review cases of waivers of the Cost Accounting Standards for specific firms.[8]

G. MAJOR PROJECTS OF THE CASB

The Board, in an attempt at managing the very many complex areas involved in cost accounting, arrived at five major projects. The first of these projects concerned the disclosure statements. As a condition to participate in negotiated contracts in excess of \$100,000, contractors were now to be required to disclose their current cost accounting practices and to follow the disclosed practices consistently. Changes were to be allowed. However, if a change increased the price of a contract, this increase could be disallowed by the Government.

The second project the Board needed to study was the consideration of exemptions. This project was prescribed by the legislation itself, and the CASB needed to consider what factors should be weighed in setting exemption policies.

The third project concerned the examination of contractor's records to ensure compliance and consistency. The points that the CASB needed to consider at this stage were as follows:

- Who should make the examination?
- How often should contractors be examined?
- What should be the scope of the examination?
- Who should receive the reports of the exam?
- What form should that report take?

The next major area was the development of cost accounting terminology. This was needed to facilitate internal communications and eventually to enhance understanding with the outside world, since outside parties would have to deal with the standards promulgated in the language of the Board.

Finally, the most time consuming and important project was the promulgation of Cost Accounting Standards. The Board staff, after studying the feasibility study performed by GAO, arrived originally at 150 subjects that could lead to standards. Of the 150 subjects, an initial group of eight was selected for further study, since these were highlighted as significant problem areas. The eight areas identified were these:

1. Reducing the instances in which like items of cost are improperly charge or double counted.
2. Improving consistency between proposals and actual cost performance.
3. Requirements to identify and segregate unallowable costs.
4. Determination of an equitable base period for the allocation of cost to work performed.

5. Appropriate handling of credits related to costs previously charged to contracts.
6. Research as to the various methods used to compute and charge depreciation.
7. Research into the appropriate method of accumulate and charge general and administrative expenses.
8. Consideration of the cost of capital. [15]

H. THE DEMISE OF THE CASB

When Public Law 91-379 was enacted it did not contain a "sunset" provision to establish a date when the CASB was to be terminated. This led some people to believe that the Board would continue to operate in perpetuity. However, during the budget hearings in 1979, Congressman Adam Benjamin of Indiana, Chairman of the House Legislative Appropriations Subcommittee, started questioning how much longer was the Board needed to complete its task. Mr. Staats was able to convince him that the Board still had work to do and that the original estimate of five to seven years had been overly optimistic. Thus, Congress provided CASB with operating funds for fiscal year 1979-80. During the next budget cycle Congressman Benjamin again asked the same question, but this time the Chairman of the CASB was not able to convince him and the Congressman stated that in his opinion

. . .the objectives of the Cost Accounting Standards Board will have been accomplished. There is not need for its continued existence. Compliance monitoring and regulatory clarifications is a legitimate and traditional function of the executive branch. . . . Thus the Committee recommends termination of the CASB.[16]

After ten years of hard work and significant accomplishments, the CASB's funding was eliminated from the Congressional Budget and the Board effectively died on September 30 of 1980. The CASB had managed to operate with a relatively small staff and an annual budget which never exceeded \$2 million--a bargain by any Washington measure.

Even after the demise of the CASB, Elmer Staats, the chairman of the Board and its most vocal supporter, continued to plead for the transfer of the Board's responsibilities to OMB so that simplifying and modifying the standards, granting waivers on individual contracts, establishing exemptions and possibly creating new standards could continue. However, his attempts were not successful and, after his retirement in March of 1981, Congress designated GAO as the overseer of CAS a condition that remains until now.

1. DEVELOPMENTS AFTER THE CASB

Since the demise of the CASB several attempts have been made to reinstate the Board but the idea has not found many advocates.

In 1983 DoD started a new initiative by getting the Justice Department to express the opinion that DoD may "adopt, reject, or grant exceptions" [17] to the CAS. This opinion was based on a Court of Claims ruling that expressed the right of DoD to adopt CAS or any other valid standard into its procurement regulations. From this position DoD moved to create a new CASB within the department, supported by a Working CAS Committee. This initiative drew loud complaints from industry, as well as from GAO, which argued that DoD was far too close to the issues to exercise neutrality in the amendment of the CAS. GAO also argued that DoD lacked the personnel and experience required to produce a set of standards which could match the quality of the CASB products.[18]

The initiative of DoD also lead to motions in Congress. Congressman LaFalce of New York, Chairman of the Subcommittee on Economic Stabilization of the House of Representatives Banking, Finance and Urban Affairs Committee, was convinced of the need for a body to administer the CAS. He, therefore, introduced a bill that would have created a new CASB that closely paralleled the previous Board with one major difference. In the new Board the members were to be appointed by the President of the United States with the advice and consent of the Senate.

Due to a shortened session in 1984 the bill did not advance any further.[16]

As of this writing (1987) Congressman LaFalce has reintroduced the bill. At the same time DoD is proceeding with its plans to administer and amend the CAS by making modifications to its procurement regulations.

III. ISSUES AND METHODOLOGY

A. INTRODUCTION

The presentation thus far has focused on developments in the arena of cost accounting. As mentioned before, these developments gave rise to a set of standards that must be followed by corporations that have negotiated defense contracts in excess of \$100,000.[19] Although, the standards produced by the CASB have a great deal of congruency with acceptable accounting principles, the Board and its projects never failed to raise conflicts throughout its existence. The issues raised have been well documented in the accounting literature. Examples of some of these issues are listed below:

1. The tendency of the standards to mandate specific practices in an effort to curb specific abuses.
2. The implementation of CAS without a proper cost/benefit analysis.
3. The need for education and training concerning the standards.
4. The concept of a governmental board promulgating the CAS. [20]

The disappearance of the CASB did not stop the flow of issues and concerns from all the parties affected; it rather added a new one--what happens now that the Board is gone?

B. INTERVIEWS

1. Set Up

After a review of the available literature, it was determined that the focus of the study should be on a few significant issues that had been raised. In an effort to find an appropriate focus for the study without arbitrarily restricting it, the author originally established communications with the Defense Contract Audit Agency (DCAA). After several phone contacts it was decided that the best way to obtain a set of current issues would be by contacting the CAS Policy Group attached to the Defense Acquisition Regulation Council, since they were already dealing with the standards in the absence of the Board. After initial phone conversations, several face-to-face interviews were scheduled and conducted. In an effort to obtain views from industry also, members of the Aerospace Industry Association of America (AIA) were contacted and interviewed. Appendix A lists the interviews conducted.

2. Methodology

The interviews were conducted in Washington D.C. on the 20th and 21st of January 1987. The subjects were initially briefed on the overall purpose of the research and were informed that the reason for the interview was to highlight important issues that would be used in the construction of a set of questionnaires to be distributed

both to defense industries and to government administrators of defense contracts. The interviews were taped. However, the subjects were assured that the comments made would not be directly attributed to them. It was felt that anonymity allowed the subjects to express their views on the topic frankly. The interviews were kept unstructured, since their purpose was to gather issues. This technique allowed the researcher to guide the interviews towards areas in which a given subject appeared to be either particularly knowledgeable or very interested. The method also allowed issues that had not surfaced during the preceding literature search to enter into the interview, since the subjects were not constrained to answer to a formatted questionnaire.

3. Issues

The majority of the issues that were presented throughout all interviews revolved around the fact that the CAS were written to deal with a dynamic set of circumstances. However, since the demise of the Board, the CAS have remained static while the defense contracting environment has continued to change. These changes have created several areas of conflict. The most salient issues--which are the ones pursued by the study--are presented in the following paragraphs.

a. Pensions

Issues related to accounting for pension costs have not been relegated solely to the world of cost accounting. The FASB recognized that accounting for pensions, especially defined benefit plans, needed some improvements and, to provide this improvement, the FASB promulgated statement number 87 in 1985.[21] In the area of cost accounting, a concern was voiced over the handling of overfunded pension plans and also the disposition of proceeds from discontinued or terminated pension plans. The following two arguments were expressed with regards to the issue: First, if the Government paid a portion of the cost of a defined benefit pension plan and if the plan is overfunded, the Government paid more than actual cost. So an adjustment should be made to reimburse the Government for the additional money it contributed. The opposing argument is that any gains made in a pension plan are the product of wise investments made by management and, therefore, the gains are just profits belonging to the firm.

b. Insurance

CAS 416 prescribes that, in measuring actual losses where the firm is self-insured,

the amount of the loss to be recognized currently shall not exceed the present value of the future payments, determined by using a discount rate equal to that prescribed for settling such claims by the State having jurisdiction over the claim. If no rate is prescribed by

the State, then the rate shall be equal to the interest rate determined by the Secretary of the Treasury. . . .
[22]

The Board promulgated CAS 416 without considering that some states provided a rate considerably lower than the market rate in an effort to discourage employers from making lump-sum payments to settle accidental liability claims. The states' action was an attempt to prevent the injured party from wasting the lump-sum payment and subsequently becoming a dependent of the state welfare system. So, for this reason some people believe that the use of these low discount rates to determine costs to be allocated to government contracts is unreasonable.

c. General and Administrative Costs

There were two issues raised with respect to the allocation of G&A costs. One of the issues is the problem encountered with the distribution of costs to contracts when a company realigns its business segments. Some of these realignments are due to shifts in the company's lines of business or due to mergers with an acquisitions of other companies. In either case there is a possibility that these changes may affect the G&A rate applicable to defense contracts. The second issue is that of a firm altering the G&A cost pool to all the contracts it holds. Changes of this nature are allowed as long as they do not increase the

the explicit consent of the Government. [23]

d. Waivers

In some instances, contractors or subcontractors may refuse to accept contract awards with CAS provisions. In these rare circumstances, if the contracting officer determines that it is impractical to obtain the goods or services from any other source, the CASB's regulations state that, following the request of the head of a federal agency,

The Board may waive all or any part of the requirements of (the CAS) with respect to a contract or subcontract to be performed within. . . (or) outside the United States by (either) a domestic. . . (or) foreign concern. [24]

Since the demise of the CASB, with no agency apparently authorized to grant waivers, a critical situation arose with respect to the Space Shuttle Program. Thiokol Corp. is the prime contractor for Space Shuttle solid rocket motors and Kerr McGee Chemical Corp. is a first tier subcontractor to Thiokol, supplying ammonium perchlorate (AP) for use as a solid fuel oxidizer. AP is a critical material in the program and had to be procured in sufficient quantities to support the Space Shuttle launch schedule. Kerr McGee was one of only two qualified suppliers of AP. Kerr McGee had not been subject to CAS but, because of the company's projected growth, it would be required to comply with CAS under its next subcontract with Thiokol. When the subcontractor refused to accept an award subject to CAS,

NASA faced a crisis in that neither of the existing suppliers of AP could alone meet the estimated increase in AP requirements, nor could a new supplier be qualified in time to meet the need. Kerr McGee agreed to invest corporate funds to increase its capacity to meet the requirements of NASA, provided it was relieved in advance of the requirements to comply with CAS. NASA found that delays in Space Shuttle launch schedules would have an unacceptable effect on the nation's space and defense efforts. So, based on these needs Kerr McGee was granted waivers to the CAS. [16] This authority is conferred by Public Law 85-804, which, among other things,

empowers the President to authorize Departments and agencies exercising functions in connections with the national defense to enter into contracts or into amendments or modifications of contracts. . .without regard to other provisions of law. . .whenever he deems that such action would facilitate the national defense. . . [25]

Further, Executive Order No. 10789 directs heads of agencies ". . .to exercise authority conferred by the Act." [26]

The key issue with respect to waivers is whether the explicit original authority, found in the CASB's regulations, should be delegated to the heads of agencies or whether the present arrangement, where this authority has to be inferred from Public Law 85-804 and Executive Order No. 10789 in terms of National Defense, is satisfactory.

e. Capitalization of Tangible Assets

CAS 404 provides a \$1000 monetary limit, over which expenditures for tangible assets must be capitalized.[27] In February 1973, when CAS 404 was promulgated, the original monetary limit prescribed was \$500. At that time the GNP deflator stood at 105.8. Shortly before going out of business, in March 1980 the CASB amended CAS 404 to set a new limit of \$1000. The GNP deflator then stood at 178.5. One of the issues that has surfaced is the need to raise the limit again in order to recognize the continuing effect of inflation. In 1987 the GNP deflator stands at 225.9.[28]

f. A New CASB

The issue that attracted the most comments during the interview process was that of the need for a body to administer the CAS. The opinions expressed at the time ranged from those who believed that there is a need for a body empowered to perform all the functions previously attributed to the CASB to the other extreme that claims that there is no need for a Board. Somewhere in between the two positions there exist a number of opinions as to the placement of the Board, the scope of its functions and its composition.

C. QUESTIONNAIRES

1. Design

After a careful review of the documentation found in the literature and the issues highlighted during the face-to-face interviews, two questionnaires were designed to collect information about the frequency of occurrence and the relative seriousness of each of the issues raised. The questionnaires' formats and perspectives were designed to cover the same basic issues, with one questionnaire being geared towards the opinions of the defense industry and the other, towards those of government contract administrators. The first questionnaire was directed to the comptroller of each organization selected. The second was sent to Chiefs of Contracts at the Defense Contract Administration Services Plant Representative Offices (DCASPROs), and the Corporate Administrative Contracting Officers (CACOs). A cover letter was attached to provide a brief overview of the research effort, to acknowledge the prospective respondent and their assistance, and to assure anonymity in the data analysis and in the thesis. A stamped return envelope was provided to expedite the questionnaire's return. The cover letter and the questionnaires appear in Appendix C.

2. Sample Selections

A total of two hundred defense contractors were sent copies of the first questionnaire. The sample was selected

at random from the current listing of DoD contractors receiving negotiated contract awards of \$10 million or more.[29] Prior to the sample selection, all listed educational and non-profit organizations were deleted from consideration. This was done in order to concentrate on business corporations involved in defense production. The second questionnaire was mailed to 105 elements of the Defense Contract Administration Service. This sample was not selected at random. Instead, a copy of the questionnaire was sent to all DCASMA's, DCASPRO's and CACOs listed on the DoD directory of contract administration service components.[30]

3. Methods of Analysis

Upon receipt, each envelope was segregated into a "industry" or "government" questionnaire file. The completed questionnaire was reviewed, responses were recorded, missing data were noted, voluntary comments were highlighted and the data were compiled and prepared for analysis. A subjective analysis of the data was conducted, since the issues being investigated did not lend themselves to rigorous statistical analysis. Simple frequency analysis is provided on each question in the data analysis section.

IV. PRESENTATION OF THE DATA

A. RETURNED QUESTIONNAIRES

As was mentioned previously, the study used two questionnaires addressing basically the same issues to gather information. To enhance clarity the questionnaire mailed to the comptrollers of defense companies will be called the "industry questionnaire". The other questionnaire, which was mailed to government contract administrators, will be called the "government questionnaire".

The industry questionnaire was mailed to 200 defense companies. Fifty-three responses were received, for a gross response rate of 26.5%. Five responses, however, were returned incomplete. Three specific reasons for incomplete responses were offered:

- (1) Government contracts were obtained through bids and the company does not become involved in cost type contracts.
- (2) The company did not have a significant volume of government contracts.
- (3) Company policies prevented information release.

Completed industry questionnaires, with minimal if any missing data, were received from 48 respondents; these form the basis for the industry data analysis. This is a usable response rate of 24%.

The government questionnaire was mailed to 105 Defense Contract Administration Service elements. Fifty-seven responses were received, for a gross response rate of 54.29%. Four responses were returned incomplete. Two reasons for incomplete responses were as follows:

- (1) The office dealt with small business contractors who were not subject to CAS,
- (2) The office is a hardware and service office with no input in the area of the questionnaire.

Completed questionnaires, with minimal if any missing data, were received from 53 respondents; these form the basis for the government data analysis. This is a usable response rate of 50.48%.

B. PENSIONS

1. Termination of Pension Plans

The first group of questions was designed to provide data with respect to the frequency with which pension plans were terminated by defense companies and also the impact the terminations may have on the costs allocated to government contracts.

The questions included in this area and the responses received are as follows

Question 1. (Industry) Has your company terminated a pension plan?

YES	=	3	(6.25%)
NO	=	45	(95.75%)

Question 1. (Government) Has any of the contractors you deal with terminated a pension plan?

YES = 12 (22.64%)
NO = 38 (71.70%)
DON'T KNOW = 3 (5.66%)

Question 2. (Industry) If so, did the termination of the plan affect the cost allocated to any government contract?

YES = 2 (66.67%)
NO = 1 (33.33%)

Question 2. (Government) If yes, have your contracts been adjusted or have you sought any adjustments after contractors terminated pension plans?

YES = 11 (91.67%)
NO = 1 (8.33%)

Both industry and government respondents who stated that pension termination had affected contract costs were asked for the magnitude of such changes, both as dollar amounts and as percentages of total contracts. Only limited responses were received for these questions, as will appear in the following discussion.

Of the 48 industry respondents, three companies reported that they had terminated a pension plan. One of them reported an adjustment of \$430,000, equivalent to less than 1% of its total government contracts. The other two companies were unable to provide information as to the magnitude of the adjustments, in one case because the matter was still in litigation.

Of the 53 Government respondents, there were 12 who indicated that they had dealt with contractors who had

terminated pension plans. One of them indicated that the termination of the pension plan did not affect the costs allocated to his government contracts. Seven respondents were unable to provide data regarding the magnitude of the adjustments, mostly due to pending negotiation and/or litigations. The remaining respondents reported adjustments ranging from \$2.9 million to \$45 million. One respondent, who indicated his branch has dealt with several terminated pension plans, reported that "most contracts have been adjusted downward. . . . However, there is nothing in either the CAS or FAR to directly deal with this subject."

The significant number of respondents who were unable to determine the effects of the terminated pension plans, together with the comment quoted above, indicates that each of the cases of terminated pension plans is being treated as an individual occurrence as far as determining the impact on contract prices.

By looking at the raw data one may get the impression that there is a large discrepancy between the number of industry respondents and government respondents that have dealt with terminated pension plans. However, one must realize that the industry respondents each have one company to consider, while the Government respondents have, in some instances, much larger samples of companies to observe.

2. Overfunded Pension Plans.

The second group of questions dealing with pension plan accounting was constructed to produce information regarding the incidence of overfunded pension plans, the possibility of this condition creating conflicts with respect to the CAS, and the extent to which this condition affected the pension cost allocated to government contracts.

The questions included in this area and the responses received are as follows:

Question 5. (Industry) Does your company have an overfunded pension plan?

YES	=	23	(47.92%)
NO	=	24	(50.00%)
INCOMPLETE	=	1	(2.08%)

Question 5. (Government) Are there any contractors you deal with, who have an overfunded pension plan?

YES	=	30	(56.60%)
NO	=	6	(20.00%)
DON'T KNOW	=	10	(18.87%)

Question 6. (Government) If so, has this overfunded condition affected the pension cost allocated to your contracts?

YES	=	18	(60.00%)
NO	=	6	(20.00%)
DON'T KNOW	=	6	(20.00%)

Question 6. (Industry) If so, is this overfunded pension plan raising any problems with respect to the CAS?

YES	=	8	(34.78%)
NO	=	15	(65.22%)

Question 9. (Government) If you have dealt with contractors with overfunded pension plans, has this condition created any conflicts with the CAS?

YES	=	12	(40.00%)
NO	=	15	(50.00%)
DON'T KNOW	=	3	(10.00%)

Both Industry and Government respondents who stated that overfunded pension plans had created conflicts were asked what was the nature of the conflicts. Government respondents who indicated that the overfunded pension plans had affected their contracts prices were asked for the magnitudes of such effects, both in dollar amounts and as percentages of total contracts. Only limited responses were received for these questions, as will appear in the following discussion.

Of the 48 industry respondents, 23 companies reported that their pension plans were overfunded. Of these, 15 indicated that they were not having any conflicts with the CAS. The conflicts that the remaining eight respondents mentioned fall into two categories. First, the Government (DCAA) has insisted that companies with an overfunded pension plan enter into agreements that will insure credit to the government for part of the overfunding. Second, there are differences in treatment between the Internal Revenue Code (IRC) and the CAS with respect to overfunded pensions. For example, in some instances contributions to overfunded pension plans are not tax

deductible. However, to ensure future allocability of this cost under CAS, the contribution must be made every year regardless of the IRC position of the matter. The differences are being widened, now that the 1986 Tax Reform Act prescribes a 10% penalty for funding in excess of funding requirements, beginning in 1987. [31]

Of the 53 Government respondents, 30 reported that they had been involved with contractors whose pension plans were overfunded. Of these 30, six indicated that the overfunding condition did not have any effect on the cost allocation to their contracts, and six others reported that they did not know if there was any effect. The remaining 18 respondents indicated that the pension costs allocated to their contracts were affected. The adjustments made to contracts vary in magnitude from \$944,000 to \$77 million and from 0.25% to 4% of total contract prices. Such adjustments reduce the prices of the government contracts. This reduction is accomplished by obtaining agreements from contractors with overfunded plans. One of the Government respondents indicated that, in September 1986, Under Secretary of Defense Wade issued a letter to field offices requesting that Contracting Officers "get a signed agreement from contractors" to secure rights to the termination gains as well as to ensure that contractors who had a continuing overfunded plan would not charge any pension cost to the government.

Of the 30 Government respondents who have dealt with overfunded pension plans, 12 indicated that they have encountered some conflicts due to the overfunding conditions. The conflicts that were noted deal primarily with the discrepancies between current regulations (such as CAS and FAR) treatment of overfunded plans. The Government responses also mentioned the extended negotiations in which contract administrators have to engage, in an attempt to secure termination gain-sharing agreements from contractors. Since there is no regulation forcing contractors to sign such agreements, very few have done so and those who have did so under considerable pressure from the Government.

C. INSURANCE

Questions related to insurance were designed to gather information to determine if the existence of low discount rates, prescribed by certain rates, had a significant effect on the allocation of insurance costs to government contracts.

The question included in this area and the responses are as follows:

Question 1. (Industry) Has your company encountered any case (or cases) where a state determined rate was used to arrive at the insurance cost allocated to a government contract?

YES	=	3	(6.25%)
NO	=	37	(77.08%)
DON'T KNOW	=	5	(10.42%)
INCOMPLETE	=	3	(6.25%)

Question 1. (Government) Have you encountered any case where your contracts' insurance allocations have been affected by (a state prescribed rate which was lower than the rate prescribed by the U.S. Treasury)?

YES = 6 (11.32%)
NO = 42 (79.25%)
DON'T KNOW = 5 (9.43%)

Industry respondents who stated that they had dealt with state prescribed rates which were lower than the rate prescribed by the U.S. Treasury were asked which states had prescribed the rates and what the rates were. Government respondents who had encountered this situation were asked for the magnitude of the effect of the lower rates on their contracts, both in dollar amounts and as a percentages of total contract price. Only limited responses were received for these questions, as will appear in the following discussion:

Of the 48 industry respondents, three companies indicated that they had encountered cases where the state determined rate used was lower than that prescribed by the treasury. Thirty-seven companies indicated they had not encountered this case, five respondents were not sure, and the remaining three did not complete this part of the questionnaire.

Of the 53 Government respondents, six reported that they had encountered cases involving the lower state-determine rates. Forty-two indicated that they had not encountered the lower rates and five were not sure.

The States that were mentioned as having prescribed lower rates were California and Minnesota, with rates varying from 3% of 6.25%. The effect encountered ranged from 0.03% to 0.5% of the total contract price. One of the Government respondents indicated that, although there are some states that do use the lower discount rates, the majority of the states do not and that the "...effect upon costs to government contracts is not as great as one might be inclined to believe." The limited evidence presented here seems to support the previous statement. Furthermore, the frequency of this occurrence appears to be very small.

D. GENERAL AND ADMINISTRATIVE COSTS

1. Realignment of Segments

The first group of questions in this area was designed to determine the frequency of realignment of business segments and the impact that this practice has on the allocation of G&A cost to government contracts. Realignment of segments refers to changes in the firm's organizational structure for reasons such as mergers or acquisitions, divestitures of particular lines of business, changes in management controls or consolidation of various business functions into one.

The questions included in this area and the responses received are as follows:

Question 1. (Industry) Has your company changed its definition of business segments?

YES = 10 (20.8%)
NO = 38 (79.17%)

Question 1. (Government) Have you encountered a case where a contractor has realigned its business segments?

YES = 38 (71.70%)
NO = 14 (26.41%)
INCOMPLETE = 1 (1.89%)

Question 2. (Industry) If so, what was the reason for the realignment of business units?

1. Change due to mergers = 3 (30.00%)
2. Change due to improve management control = 2 (20.00%)
3. Change to account for organizational restructure = 2 (20.00%)
4. Change to consolidate cost pools = 1 (10.00%)
5. Change to align operations with markets = 1 (10.00%)
6. Changes to account for off-site service contracts = 1 (10.00%)

Question 3. (Industry) Did the realignment change the G&A cost allocated to government contracts?

YES = 8 (80.00%)
NO = 2 (20.00%)

Question 2. (Government) If so, has the realignment altered the cost allocated to your contracts?

YES = 21 (55.26%)
NO = 13 (34.21%)
DON'T KNOW = 4 (10.53%)

Both industry and Government respondents who stated that business realignments had affected contract costs were asked for the magnitudes of such effects, both as dollar amounts and as percentages of total contracts. Only limited responses were received for these questions, as will appear in the following discussion.

Of the 38 Government respondents who have dealt with contractors who realigned their business segments, 21 indicated that the change had affected the costs allocated to their contracts. Of these 21, eight were not able to determine the magnitude of the change, and four indicated that the change was immaterial. In the industry questionnaire, of the ten respondents who indicated that the realignment had caused some change, two were unable to determine the magnitude of the change, while four reported that the change was immaterial. Of the four industry respondents who reported a material change, one reported a shift of \$400,000 from government contracts to commercial contracts, while another expects reductions of as much as 60%. In the government questionnaire the magnitudes of the changes range from \$50,000 to \$13.5 million, while the change in percent of contract prices varies from less than 1% to 10%.

The frequency as well as the impact of realignment of business segments appears to be significant, and contracts and Government administrators now appear to be handling each occurrence as it develops. This may be the reason that several of the respondents were not able to provide impact information. They may still be waiting for the courts to settle the issue.

2. Change of Allocation Base

The second group of questions asked in the area of G&A was designed to gather information to determine the frequency of changes of allocation bases as well as the impact that these changes have on government contracts.

The questions included in this area and the responses received are as follows:

Question 5. (Industry) Has your company changed the base used for allocating G&A cost to contracts?

YES	=	10	(20.83%)
NO	=	36	(75.00%)
INCOMPLETE	=	2	(4.17%)

Question 5. (Government) Have you encountered any case where a contractor changed its allocation basis for G&A costs?

YES	=	13	(24.53%)
NO	=	36	(67.92%)
DON'T KNOW	=	3	(5.6%)
INCOMPLETE	=	1	(1.89%)

Question 6. (Industry) If so, what was the reason for change?

1. To improve technique, previous base distorted allocations = 2 (20.00%)
2. To account for mergers - 2 (20.00%)
3. To implement CAS 410 = 2 (20.00%)
4. To improve casual, beneficial relationship = 2 (20.00%)
5. To account for change in business conditions = 1 (10.00%)
6. Incomplete = 1 (10.00%)

Question 7. (Industry) Did the change alter the G&A cost allocated to government contracts?

YES	=	8	(80.00%)
NO	=	2	(20.00%)

Government respondents who indicated they had dealt with changes in G&A allocations bases were asked for the magnitude of the effect that the change in allocating base had on their contract price, both as dollar amounts and as percentage of total contract. Only limited responses were received for these questions, as will appear in the following discussion.

Of the 53 Government respondents, 13 indicated that they had encountered cases where a contractor had changed its allocation basis. Thirty-six respondents indicated that they hadn't encountered such cases, four were not sure if any of the contractors they dealt with had changed their allocation bases, and one questionnaire was incomplete in this area.

Of the 13 Government respondents who indicated they had dealt with contractors who have changed their allocation bases for G&A costs, one failed to include any data relating to the magnitude of the change and four indicated that the magnitude of the change was unknown to them. Three of the 13 indicated that the effect on the costs allocated to their contracts was negligible. The remaining five indicated that the effect ranged in magnitude from \$205.00 to \$2.7 million and that the percentage effect on the total contract price varied from 1% to 7%.

Of the ten companies which reported having changed their allocation base, eight indicated that the change altered the allocation of G&A cost to government contracts. Of these eight one reported that the change was not material. The other seven respondents did not include information with respect to the magnitude of the effect. The remaining two which indicated a change in G&A allocating base reported no change in the allocation to government contracts. However, one of the companies which reported no change indicated that the reason was because the company's sales volume is virtually 100% government contracts and, although the total price to the Government did not change, the distribution among the different contracts did change.

The change in G&A allocation base appears to be significant both with respect to the frequency of occurrence (approximately 20%) and in the impact on government contracts.

E. WAIVERS

The questions in this area were designed to determine how often waivers to the CAS are granted, what the reasons for the waivers area, and who grants the waivers.

The questions included in this area and the responses received are as follows:

Question 1. (Industry) Has your company ever received a waiver of the CAS?

YES = 3 (6.25%)
NO = 45 (93.75%)

Question 1. (Government) Have you been involved with the granting of waivers to the CAS to any contractor?

YES = 2 (3.77%)
NO = 49 (92.46%)
INCOMPLETE = 2 (3.77%)

Industry and Government respondents who indicated that they had dealt with waivers were asked to comment on the reasons for the waivers. Industry respondents were also asked who had granted the waivers.

Of the 48 industry respondents, three companies reported having received waivers to the CAS. The reasons given for the waivers are the following three:

1. The company is a sole source subcontractor, who was granted a waiver by the procurement agency.
2. Waiver granted to the company for a "U.S. Treasury Statue of Liberty coin contract for advertising."
3. The company is a regulated utility with waivers granted by various Government agencies.

Of the 53 Government respondents, two indicated having dealt with waivers for the following reasons: (1) to exclude a contract from the total cost input base, and (2) to relax a disclosure statement requirement for a Canadian firm subject to CAS. One of the Government questionnaires was returned incomplete.

The frequency of occurrence of waivers does not appear to be of significant consequence.

F. CAPITALIZATION OF TANGIBLE ASSETS

The questions in this area were designed to collect the opinion of contractors and Government contract administrators with respect to the need for changing the tangible assets capitalization limit prescribed by CAS 404. Currently CAS 404 provides a \$1000 monetary limit, over which expenditures for tangible assets with useful lives of at least two years must be capitalized.

The questions included in this area and the responses received are as follows:

Question 1. (Industry) Do you believe that the monetary limits prescribed by CAS 404 should be changed?

YES	=	23	(47.92%)
NO	=	17	(35.42%)
DON'T KNOW	=	7	(14.58%)
OTHER	=	1	(2.08%)

Question 1. (Government) Do you believe that the monetary limits prescribed by CAS 404 should be changed?

YES	=	21	(39.62%)
NO	=	19	(35.85%)
DON'T KNOW	=	11	(20.76%)
INCOMPLETE	=	1	(2.08%)

Question 2. (Industry) If so, should they be lowered or raised?

RAISED	=	21	(87.50%)
LOWERED	=	0	(0.00%)
OTHER	=	3	(12.50%)

Question 2. (Government) If so, should they be lowered or raised?

RAISED	=	19	(90.48%)
LOWERED	=	2	(9.52%)

Question 3. (Industry) What do you believe is now a reasonable monetary limit for the capitalization of tangible assets?

\$1000	= 17 (35.41%) - no change
\$1500	= 3 (6.25%)
\$1500-2000	= 3 (6.25%)
\$2000	= 3 (6.25%)
\$2500	= 2 (4.17%)
\$3000	= 1 (2.08%)
\$5000	= 7 (23.53%)
DON'T KNOW	= 6 (12.50%)

Question 3. (Government) What do you believe is now a reasonable monetary limit for the capitalization of tangible assets?

NO DOLLAR LIMIT	= 1 (1.89%)
\$200	= 1 (1.89%)
\$1000	= 19 (35.85%) - no change
\$1500	= 1 (1.89%)
\$1500-2000	= 1 (1.89%)
\$2000	= 2 (3.77%)
\$2000-2500	= 1 (1.89%)
\$2500	= 3 (5.66%)
\$5000	= 7 (13.20%)
\$10000	= 2 (3.77%)
DON'T KNOW	= 1 (1.89%)

Of the 48 industry respondents, 23 companies indicated that there was a need to change the monetary limits imposed by CAS 404. All of the industry respondents who believe that the limits should be changed agree that they should be raised.

Of the 53 Government respondents, 20 indicated that the limits should be changed. Of these 20, two indicated that they should be lowered. One of these suggested that the appropriate limit should be \$200.00, while the other indicated that the dollar limit should be abolished and the

expected life of the asset should be the only criterion. The remaining 18 respondents agreed that the limits in CAS 404 needed to be raised.

Three industry respondents proposed different methods to establish the monetary limits. They included the following comments:

1. There should be two categories: Large business \$1000 and Small Business \$500.
2. Limits should keep up with inflation at a minimum.
3. Limits should be raised to a higher amount--especially for software capitalization.

The information collected appears to support the need for an increase in the monetary limit of CAS 404.

G. GENERAL

1. Is There a Need For a CASB?

The first group of questions in this area was designed to collect the opinion of contracts and Government contract administrators with respect to the need for an entity to assume all or at least some of the responsibilities of the CASB.

The questions included in this area and the responses received are as follows:

Question 1. (Industry) Do you feel there is a need for an entity to assume ALL the responsibilities of the Cost Accounting Standards Board (CASB)?

YES	=	24	(50.00%)
NO	=	17	(35.42%)
DON'T KNOW	=	6	(12.50%)
INCOMPLETE	=	1	(2.08%)

Question 1. (Government) Do you feel there is a need for an entity to assume ALL the responsibilities of the Cost Accounting Standards Board (CASB)?

YES	=	35	(66.04%)
NO	=	14	(26.41%)
DON'T KNOW	=	3	(5.66%)
INCOMPLETE	=	1	(1.89%)

Question 2. (Government) If no, do you feel there is a need for an entity to assume SOME of the responsibilities of the CASB?

YES	=	7	(50.00%)
NO	=	7	(50.00%)

Question 2. (Industry) If no, do you feel there is a need for an entity to assume SOME of the responsibilities of the CASB?

YES	=	8	(47.06%)
NO	=	8	(47.06%)
DON'T KNOW	=	1	(5.88%)

The relative number of respondents in both groups that indicated the need for an entity to assume all the responsibilities of the CASB does not suggest any difference of opinion between the two groups. There is also a similar view in the two groups as to the need for an entity to assume some of the responsibilities of the CASB.

Both industry and Government respondents who stated there was a need for an entity with SOME of the responsibilities of the CASB were asked to comment on which specific responsibilities should be included.

The industry respondents who indicated the need for a body with some of the responsibilities of the CASB listed the following responsibilities as those which they believe should be entrusted to an administrative agency:

- a. Granting of waivers
- b. Interpretation of standards
- c. Changes to adapt existing standards to changing conditions.
- d. Issuance of uniform guidance
- e. Updating/eliminating outdated economic factors.

The Government respondents who indicated that some responsibilities of the CASB should be given to somebody listed the following responsibilities:

- a. Interpretation of existing standards.
- b. Monitoring and adjustment of specific limits.
- c. Consideration of specific standards for rescission.
- d. Clarification of existing standards.

2. Administration of the CAS

The second group of questions in this area was designed to collect opinion from the contractors and Government contract administrators with respect to an appropriate entity to administer the CAS. A question was also included to determine the familiarity of the respondents with DoD's initiative to amend the CAS.

The questions included in this area and the responses received are as follows:

Question 4. (Industry) Are you aware of the Department of Defense (DoD) initiative to amend the CAS?

YES	=	32	(66.67%)
NO	=	13	(27.08%)
INCOMPLETE	=	3	(6.25%)

Question 4. (Government) Are you aware of the Department of Defense (DoD) initiative to amend the CAS?

YES	=	32	(60.38%)
NO	=	19	(35.85%)
INCOMPLETE	=	2	(3.77%)

Question 5. (Industry) Who do you feel would be the proper administrator of the CAS?

DoD	=	2	(4.17%)
GAO	=	6	(12.15%)
NEW CASB	=	20	(41.67%)
OTHER	=	5	(10.42%)
NOBODY	=	7	(14.58%)
DON'T KNOW	=	6	(12.50%)
INCOMPLETE	=	2	(4.17%)

Question 5. (Government) Who do you feel would be the proper administrator of the CAS?

DoD	=	11	(20.75%)
GAO	=	6	(11.32%)
NEW CASB	=	19	(35.85%)
OTHER	=	4	(7.55%)
NOBODY	=	4	(7.55%)
DON'T KNOW	=	6	(11.32%)
INCOMPLETE	=	3	(5.66%)

As described in Chapter II section I. DoD has made some attempts to amend the CAS. Of the 48 industry respondents, 32 indicated that they were aware of DoD's intentions to amend the CAS. Thirteen indicated that they were not aware of these developments, and three

questionnaires were returned incomplete in this area. Of the 53 Government respondents, 32 indicated that they were aware of the DoD's intentions to amend the CAS. Nineteen responded that they were not aware of these developments, and there were three questionnaires incomplete in this area.

When asked whom they believed should administer the CAS, the data point out some similarities as well as some differences. The institution which the majority of both surveyed groups selected to administer the standards is a new CASB (Industry 41.67% and Government 35.85%). Both groups again indicated about the same preference for the General Accounting Office (Industry 12.5% and Government 11.32%) and about the same degree of uncertainty (Industry 10.42% and Government 11.54%). The two notable differences found are the following: (1) Industry indicated DoD only 4.17% of the time, while 20.75% of Government agents selected DoD--second only to a new CASB. (2) The second choice for industry was "nobody", with 14.58% of the respondents indicating that there was no need for an administrator of the CAS. Government, on the other hand, indicated "nobody" only 7.55% of the time.

Industry respondents indicated that an "other" entity should administer the standards 10.42% of the time. Some of the choices that were suggested as the "other entity" are as follows:

- a. A body similar to FASB.
- b. An independent body with industry representation.
- c. A new CASB with enlarged responsibilities to include allowability.

Government respondents selected "other" 7.55% of the time, and their suggested entities are as follows:

- a. Defense Contract Audit Agency (DCAA).
- b. Office of Federal Procurement Policy (OFPP).
- c. The Federal Acquisition Council.
- d. An independent agency established by Congress.

The data suggest that industry in general favors some independent body as the administrator of the CAS. Government, on the other hand, favors a government agency.

H. OPEN-ENDED QUESTION

Both questionnaires had the following open-ended question included in them:

Are there any other problems that you have encountered with the CAS that were not covered in this questionnaire? (Please describe briefly.)

Of the 48 industry respondents, 18 included additional comments, and of the 53 Government respondents, 17 responded to the open-ended question.

Some of the comments provided by both groups were collected into the broad themes presented below.

1. Need for Guidance and Clarification

One of the problems cited by both sides was the difficulties encountered in the daily interpretation of the standards. These comments range from short statements declaring the standards "vague" to several more elaborate ones. For example one industry respondent commented that:

There are no specific rules in CAS on cost impacts and materiality. Therefore, each ACO, DCAA auditor and CACO has different interpretations on materiality and the administration of cost impacts.

A Government respondent stated that "better guidance related to cost impacts. . ." was needed. Another Government respondent offers the following possible solution: "Many potential ASBCA cases could be dispositioned prior to a final decision if an independent CASB existed to provide informal opinions, guidance and revised standards."

2. Lack of Agreement with Other Regulations

Some comments were made with respect to the fact that CAS treats certain costs elements differently from other government regulations. For example, a Government respondent commented "Guidelines for depreciation in CAS 409 do not agree with the current administration depreciation policies." An industry respondent cited as a problem the accounting for and allocating of state and local taxes.

3. General Attitudes

Both groups included comments that indicate that there is an antagonistic approach to their relationship. One

of the industry respondents stated that the "general attitude that business is bad guys needs to change so that quality products can be produced without fear that honest mistakes could result in criminal prosecution." On the other hand, several Government respondents included comments that contractors view the CAS as means to add to the price of a contract.

4. DCAA Interface

The largest number of related comments in the open ended question dealt with the role that DCAA has in the process. Industry respondents tended to view the role of DCAA as a "militant" organization with "tendencies to develop new and unusual interpretations of CAS." Government respondents complained about the difficulty of obtaining both "timely" and "continuous" review of disclosure statements from DCAA.

V. SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

A. REVIEW OF THE RESEARCH QUESTIONS.

The basic research question of this project was: What, if any, problems for industry and/or for defense agencies have resulted from the abolition of the CASB? Subsidiary questions included:

1. How serious are these problems?
2. Are there any cases in which the absence of the CASB provides an advantage or a disadvantage to either the contractor or the government agency?
3. How are contractors and the agencies handling areas of contention?

B. FINDINGS

The objective of this study was to collect data related to several defense contract cost accounting issues that may have arisen in the absence of the Cost Accounting Standards Board. The following findings and conclusions were derived from the questionnaire responses received from defense contracting companies and from contracting personnel in the Defense Contract Administration Service.

1. Pensions

The evidence received suggests that the frequency of occurrence of a firm terminating its pension plan is, at best, moderately significant. Furthermore, the effect of the termination on contract price is difficult to appraise

because the majority of respondents were not able to provide this information, since they are still waiting for settlements of negotiation or litigations.

The evidence received suggests that the incidence of overfunded pension plans is significant. Overfunding is determined by measuring the actuarial value of assets held by the plan against the present value of the accumulated benefits. If a pension plan is overfunded, no further contributions are allowed as costs of government contracts. Furthermore, CAS 413 provides for actuarial gains resulting from overfunding to be amortized over a period of 15 years. Finally, the FAR requires annual payments into a pension plan in order to maintain allowability. This complex of varied regulations has resulted in potential conflicts and controversy.

2. Insurance

The evidence collected suggest that very few contractors and government contract administrators have encountered cases dealing with artificially low discount rates required by a few states for use in settling insurance claims. The impact of these low rates on government contracts appears to be negligible.

3. General and Administrative

The evidence received suggests that the number of contractors who realign their business segments is

significant. These realignments occur because of various reasons, such as firms reorganizing after mergers or acquisition or management's attempt to improve their internal control systems. However, the impact on the cost allocated to government contracts does not appear to be very significant.

There is also a significant number of contractors who have changed their G&A allocation bases. CAS 410 provides guidance with respect to the appropriate base to be used, and section 332 of the CAS allows changes in allocation base as long as no increase in cost is charged to the contract without the Government's approval. The evidence suggest that, even though the changes in allocation bases are significant, their impact is not. However, the significant number of cases may suggest an increase in negotiation and administration requirements.

4. Waivers

The evidence received indicates that there is a very small number of waivers to the CAS processed. The data also suggest that the waivers were processed without any significant complication. These findings suggest that there may not be any great advantage gained by transferring the waiver authority of the CASB to agencies such as DoD, since these agencies already are able to dispose of the few waivers required without difficulty.

5. Capitalization of Tangible Assets

A significant number of contractors and government administrators indicated that the monetary limits specified by CAS 404 needed to be raised. The most prevalent level suggested by those who believe the limits should be raised was \$5000. However, more respondents favored retention of the current \$1000 limit than any single change.

6. A New CASB

The opinions obtained suggest that there is a need for an entity tasked with the maintenance and administration of the CAS. Over half of the contractors and government agents who answered the questionnaire indicated that there is a need for a body vested with all the responsibilities previously held by the CASB. Of those who do not believe there is a need for a full-fledged board, a significant group indicated that in their opinion there is a need for an entity with limited responsibilities. The clear choice, of both contractors and government agents, for a body to administer the CAS is a new Board. However, the two groups do not agree on the alternatives. In general, contractors favor some type of independent body, and government agents lean towards a government agency.

A significant number of all respondents were aware of the DoD initiative to amend the CAS. Contractors overwhelmingly disapprove of DoD administering the CAS.

However, although not a majority, a significant number of government agents chose DoD as the appropriate administrator of the standards.

Among the contractor respondents there is a significant group who believes that there is no need for a body to administer the CAS.

7. Contractor-Government Relationship

Comments obtained from respondents suggest that the relationship between contractors and the Government is based in shared mistrust. Contractors complain that government agents always picture industry as "bad guys", while at the same time they describe the Government's role as capricious and narrow-minded. Government respondents, on the other hand, claim that contractors use the standards as a mean to increase the costs they can charge to the Government.

C. RECOMMENDATIONS

In light of the findings of this study, the following actions are recommended:

1. The potential increase in negotiation and litigation that was suggested shows, may be in part, the result of poor or conflicting guidance provided by the procurement agencies. For example, conflicts appear to exist between FAR and CAS with respect to the treatment of overfunded pension plans. It is

recommended that fair and consistent policies be developed to minimize the conflicts that arise from independent solutions to recurring situations. This guidance should be developed jointly by DoD, DCAA and industry representatives such as CODSIA, AIA etc. The implementation of this action would help reduce the number of cases that need to be resolved by the ASBCA and the courts. It also may serve to reduce the antagonistic attitudes that are encountered at all levels of defense contracting

2. Many of the disagreements between Government and contractors come from issues which the CASB did not address. It is recommended that the Congress establishes a body empowered, at the very least, with limited maintenance and administrative responsibilities for the CAS. Congressman LaFalce's proposal appears to be a step in the right direction of providing an entity capable of supplying the guidance that both contractors and government agents feel is needed. The creation of the new board should deal with issues of placement, industry representation, and proper definition of its role. This action would serve to provide fair and continuous guidance for the proper resolution of emergent conflicts.

D. CONCLUSIONS

Several issues were studied and a few of them may be considered problems. These problems were not caused by the abolition of the CASB per se, however. They arose because of changes in economic conditions--such as rising investment revenues leading to overfunded pension plans and continued inflation--and the CAS had no provisions to deal with such changes. Several contractors and government contract administrators have encountered problems dealing with the issues generated by terminated and overfunded pension plans, as well as differences encountered when dealing with realigned business units and changed allocation bases. Potentially the largest problem of all seems to be the frustration of both parties in dealing with each other in an antagonistic manner without an unbiased intermediary to limit and defuse controversy. On the other hand, several of the issues originally considered do not appear to be problems--such as the handling of waivers and the state-prescribed discount rate for insurance claims.

The seriousness of the problems varies, but generally they are not very substantial if one only measures the magnitude of the effects on contract prices. The problems may be more significant if they increase the administrative load measurably.

Neither contractors nor Government have gained a definite advantage from any of these problems. However, each sees the other as having an unfair advantage. For example, after taking their cases to courts over the distribution of pensions gains, those gains are distributed. However, each side continues to claim that the other side acquired more than it deserved.

Most conflict resolution appears to be done in the courts. This is not the best way to resolve differences in the procurement arena, since it adds time and cost to the process.

In conclusion, since the demise of the CASB there have been several economic changes which have led to differences between contractors and government representatives. Many of the participants in this study feel that a body with at least some of the responsibilities of the CASB would reduce the problems, as long as this body could be created with an unbiased approach to identification and resolution of issues.

APPENDIX A

Personal Interviews

Mr. David Relly
CAS Policy Group
DAR Council
The Pentagon
Washington, D.C.

Mr. Joseph Mulvey
DCAA Technical Representative
CAS Policy Group
Defense Logistic Agency
Cameron Station
Alexandria, VA

Mr. Robert Lynch
National Aeronautics and Space Administration
NASA Headquarters
Washington, D.C.

Mr. Hall Scheller
Aerospace Industry Association of America, Inc.
Washington, D.C.

Mr. Patrick D. Sullivan
Aerospace Industry Association of America, Inc.
Washington, D.C.

APPENDIX B

COST ACCOUNTING STANDARDS

CAS 401. Consistency in estimating and reporting costs.

PURPOSE: The purpose of this cost accounting standard is to insure that each contractor's practices used in estimating costs for a proposal are consistent with cost accounting practices used by him in accumulating and reporting costs.

EFFECTIVE DATE: July 1, 1972

CAS 402. Consistency in allocating costs incurred for the same purpose.

PURPOSE: The purpose of this standard is to require that each type of cost is allocated only once and on only one basis to any contract or other cost objective.

EFFECTIVE DATE: July 1, 1972

CAS 403. Allocation of home office expenses to segments.

PURPOSE: The purpose of this standard is to establish criteria for allocation of the expense of a home office to the segments of the organization based on the beneficial or causal relationship between such expenses and the receiving segments.

EFFECTIVE DATE: July 1, 1973

CAS 404. Capitalization of tangible assets

PURPOSE: This standard requires that, for purposes of cost measurements, contractors establish and adhere to policies with respect to capitalization of tangible assets which satisfy criteria set forth in this standard.

EFFECTIVE DATE: July 1, 1973

CAS 405. Accounting for unallowable costs.

PURPOSE: The purpose of this standard is to facilitate the negotiation, audit, administration and settlement of contracts by establishing guidelines covering the cost accounting treatment to be accorded identified unallowable costs.

EFFECTIVE DATE: April 1, 1974

CAS 406. Cost accounting period.

PURPOSE: The purpose of this standard is to provide criteria for the selection of the time periods to be used as cost accounting periods for contract cost estimating, accumulating and reporting

EFFECTIVE DATE; July 1, 1974

CAS 407. Use of standard cost for direct labor and direct material.

PURPOSE: The purpose of this standard is to provide criteria under which standard costs may be used for estimating, accumulating and reporting costs of direct material and direct labor and to provide criteria relating to the establishment of standards, accumulation of standard costs and accumulation and disposition of variances from standard costs.

EFFECTIVE DATE: October 1, 1974

CAS 408. Accounting for costs of compensated personal absence.

PURPOSE: The purpose of this standard is to improve, and provide uniformity in the measurement of costs of vacation, sick leave, holiday and other compensated personal absence for a cost accounting period, and thereby increase the probability that the measured costs are allocated to the proper cost objectives.

EFFECTIVE DATE: July 1, 1975

CAS 409. Depreciation of tangible capital assets.

PURPOSE: The purpose of this standard is to provide criteria and guidance for assigning costs of tangible capital assets to costs accounting periods and for allocating such costs to cost objectives within such periods in an objective and consistent manner.

EFFECTIVE DATE: July 1, 1975

CAS 410. Allocation of business unit general and administrative expenses to final cost objectives.

PURPOSE: The purpose of this standard is to provide criteria for the allocation of business unit general and administrative expenses to business unit final cost objectives based on their beneficial or causal relationships.

EFFECTIVE DATE: October 1, 1976

CAS 411. Accounting for acquisition costs of material.

PURPOSE: The purpose of this standard is to provide criteria for the accounting of acquisition costs of material and includes provisions on the use of inventory costing methods

EFFECTIVE DATE: January 1, 1976

CAS 412. Composition and measurement of pension costs.

PURPOSE: This standard establishes the basis on which pension costs shall be assigned to cost accounting periods and provides guidance for determining and measuring the components of pension cost.

EFFECTIVE DATE: January 1, 1976

CAS 413. Adjustment and allocation of pension costs.

PURPOSE: The purpose of this standard is to provide guidance for adjusting pension cost by measuring actuarial gains and losses and assigning such gains and losses to cost accounting periods.

EFFECTIVE DATE: March 10, 1978

CAS 414. Cost of money as an element of the cost of facilities capital.

PURPOSE: The purpose of this standard is to establish criteria for the measurement and allocation of the cost of capital committed to facilities as an element of contract cost.

EFFECTIVE DATE: October 1, 1976

CAS 415. Accounting for the cost of deferred compensation.

PURPOSE: The purpose of this standard is to provide criteria for the measurement of the cost of deferred compensation and the assignment of such costs to cost accounting periods.

EFFECTIVE DATE: July 10, 1977

CAS 416. Accounting for insurance costs.

PURPOSE: The purpose of this standard is to provide criteria for the measurement of insurance costs, the assignment of such costs to cost accounting periods, and their allocation to cost objectives.

EFFECTIVE DATE: July 10, 1979

CAS 417. Cost of money as an element of the cost of capital assets under construction.

PURPOSE: The purpose of this standard is to establish criteria for the measurement of the cost of money attributable to capital assets under construction, fabrication or development as an element of the cost of those assets.

EFFECTIVE DATE: December 15, 1980

CAS 418. Allocation of direct and indirect costs.

PURPOSE: The purpose of this standard is to provide for consistent determination of direct and indirect costs, to provide criteria for the accumulation of indirect costs, and to provide guidance for the selection of allocation measures based on the beneficial or causal relationship between indirect cost pools and cost objectives

EFFECTIVE DATE: September 20, 1980

CAS 420. Accounting for independent research and development costs and bid and proposal costs.

PURPOSE: The purpose of this standard is to provide criteria for the accumulation of independent research and development costs and bid and proposal costs and for the allocation of such costs to cost objectives based on the beneficial or causal relationship.

EFFECTIVE DATE: September 25, 1979

APPENDIX C

1. COVER LETTER

Dear Sir:

The enclosed questionnaire will be used to gather additional data for my master thesis at the Naval Postgraduate School. I request that you take 30 minutes to answer it and return it in the envelope provided.

I will use the survey data to help determine the impact that the lack of a Cost Accounting Standards Board has had on the allocation of indirect cost pools to negotiated government contracts.

The survey emphasizes several issues that were raised during interviews that I conducted with DoD, DCAA, and industry personnel. However, an open-ended question is included to cover issues that you may have encountered and feel deserve attention.

The survey does not include any personal identification, and I will not use the data to quote anyone directly. If you desire a copy of the survey results please include a note with your name and address and I will make sure that you receive it. I sincerely appreciate your assistance.

Respectfully,

James F. Sumner

2. INDUSTRY QUESTIONNAIRE

A. PENSIONS

Because of the changes in the economic environment, recently some concerns have been raised over the treatment of pension cost under the Cost Accounting Standards (CAS), with specific references to overfunded pension plans and the termination of plans.

1. Has your company terminated a pension plan?

Yes

No

2. If so, did the termination of the plan affect the cost allocated to any government contract?

Yes

No

Don't Know

3. If so, what was the magnitude of the adjustment directly attributable to the termination of the plan?

4. What percentage of your company's total government contracts, was that adjustment?

5. Does your company have an overfunded pension plan

Yes

No

6. If so, is this overfunded pension plan raising any problems with respect to the CAS?

Yes

No

Don't Know

7. If so, briefly, what is the nature of the problem?

B. INSURANCE

CAS 416 prescribes that the insurance cost of the period for self-insurance will be the present value of future payments, discounted at a rate prescribed by the state of jurisdiction over the claim. If no such rate is prescribed by the state, then the rate used is to be determined by the Secretary of the Treasury. Since some states (without CAS in mind) prescribed rates that are low in comparison with the rate prescribed by the Secretary of the Treasury, some agencies claim that the insurance costs allocated to their contracts are inflated.

1. Has your company encountered any case (or cases) where a state determined rate was used to arrive at the insurance cost allocated to a government contract?

Yes

No

Don't Know

2. If so, what was (were) the discount rate(s) used?

3. What state(s) had jurisdiction over the claim(s)?

C. GENERAL & ADMINISTRATIVE

1. Has your company changed it's definition of business segments?

Yes

No

2. If so, what was the reason for the realignment of business units?

3. Did the realignment change the G&A cost allocated to government contracts?

Yes

No

Don't Know

4. If so, what was the magnitude of the adjustment?

5. Has your company changed the base used for allocating G&A cost to contracts?

Yes

No

6. If so, what was the reason for the change?

7. Did the change alter the G&A cost allocated to government contracts?

Yes

No

Don't Know

D. WAIVERS

1. Has your company ever received a waiver of the CAS?

Yes

No

2. What was the reason for the waiver?

3. Who granted the waiver?

E. CAPITALIZATION OF TANGIBLE ASSETS.

CAS 404 provides a \$1000 monetary limit, over which limit expenditures for tangible assets must be capitalized. The Cost Accounting Standards Board (CASB) raised that limit from \$500 to \$1000 to reflect inflation. Now there are some opinions that the present limits need to be revised again.

1. Do you believe that the monetary limits prescribed by CAS 404 should be changed?

Yes

No

Don't know

2. If so, should they be lowered or raised?

3. What do you believe is now a reasonable monetary limit for the capitalization of tangible assets?

F. GENERAL

1. Do you feel there is need for an entity to assume ALL the responsibilities of the Cost Accounting Standards Board (CASB)?

Yes

No

Don't Know

2. If no, do you feel there is a need for an entity to assume SOME of the responsibilities of the CASB?

Yes

No

Don't Know

3. If so, which specific responsibilities?

4. Are you aware of the Department of Defense (DOD) initiative to amend the CAS?

Yes

No

5. Who do you feel would be the proper administrator of the CAS?

DOD

GAO

A new CASB

other _____

Nobody, there is no need

Don't Know

6. Are there any other problems that you have encountered with the CAS that were not covered in this questionnaire? (Please describe briefly.)

3. GOVERNMENT QUESTIONNAIRE

A. PENSIONS

Recently some concerns have been voiced over the handling of pension costs under the Cost Accounting Standards (CAS), with specific references to overfunded pension plans and the termination of plans.

1. Has any of the contractors you deal with terminated a pension plan?

Yes

No

Don't Know

2. If yes, have your contracts been adjusted or have you sought any adjustments after contractors terminated pension plans?

Yes

No

3. If so, what was the magnitude of the adjustment allocated to your contracts after contractor terminated its pension plan?

4. What percentage of the total contracts price were the adjustments?

5. Are there any contractors you deal with, who have an overfunded pension plan

Yes

No

Don't know

6. If so, has this overfunded condition affected the pension cost allocated to your contracts?

Yes

No

Don't Know

7. If so, what was the magnitude of the effect on your contracts due to the overfunding of the plan?

8. What percentages of the total contract prices were the effects?

9. If you dealt with contractors with overfunded plans, has this condition created any conflicts with the CAS?

Yes

No

Don't Know

10. If so, what was the nature of the conflicts?

B. INSURANCE

CAS 416 prescribes that the insurance cost off the period for self-insurance will be the present value of future payments, discounted at a rate prescribed by the state of jurisdiction over the claim. If no such rate is prescribed by the state, then the rate used is to be determined by the Secretary of the Treasury. Since some states (without CAS in mind) prescribed rates that are low in comparison with the rate prescribed by the Secretary of the Treasury, some agencies claim that the insurance costs allocated to their contracts are inflated.

1. Have you encountered any case where your contractors' insurance allocations have been affected by this rule?

Yes

No

Don't Know

2. If so, what are the magnitude of the effects that the use of the state discount rate had on your contracts?

3. What percentage of the total contract price were the effects on your contracts?

C. GENERAL & ADMINISTRATIVE

1. Have you encountered a case where a contractor has realigned it's business segments?

Yes

No

Don't Know

2. If so, has that realignment altered the cost allocated to your contracts?

Yes

No

Don't Know

3. If so, what was the magnitude of the change to your contracts due to the realignment?

4. What percentage of the total contract prices were the changes?

5. Have you encountered any case where a contractor changed its allocation basis for G&A cost?

Yes

No

Don't know

6. If so, what was the magnitude of the change of G&A cost to your contracts due to the change in allocation basis?

7. What were the percent changes with respect to total contract prices?

D. WAIVERS

1. Have you been involved with the granting of waivers to the CAS to any contractor?

Yes

No

2. If you have been involved in granting waivers, please briefly describe the reasons for the waivers.

E. CAPITALIZATION OF TANGIBLE ASSETS.

CAS 404 provides a \$1000 monetary limit, over which limit expenditures for tangible assets must be capitalized. The Cost Accounting Standards Board (CASB) raised that limit from \$500 to \$1000 to reflect inflation. Now there are some opinions that the present limits need to be revised again.

1. Do you believe that the monetary limits prescribed by CAS 404 should be changed?

Yes

No

Don't know

2. If so, should they be lowered or raised?

3. What do you believe is now a reasonable monetary limit for the capitalization of tangible assets?

F. GENERAL

1. Do you feel there is a need for an entity to assume ALL the responsibilities of the Cost Accounting Standards Board (CASB)?

Yes

No

Don't Know

2. If no, do you feel there is a need for an entity to assume SOME of the responsibilities of the CASB?

Yes

No

Don't Know

3. If so, which specific responsibilities?

4. Are you aware of the Department of Defense (DOD) initiative to amend the CAS?

Yes

No

5. Who do you feel would be the proper administrator of the CAS?

DOD

GAO

A new CASB

other _____

Nobody, there is no need

Don't Know

6. Are there any other problems that you have encountered with the CAS that were not covered in this questionnaire? (Please describe briefly.)

LIST OF REFERENCES

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